SUMMARIZED MINUTES
WESTWORLD SUBCOMMITTEE
PUBLIC MEETING
Monday, December 5, 2005

Monterra at WestWorld
16601 North Pima Road
Scottsdale, AZ 85262

Call to order at 8:00 a.m.

Roll Call

Members Present:	Subcommittee Chair Wayne Ecton Council Member Betty Drake Councilman Ron McCullagh
Also Present:	Roger Klingler, Assistant City Manager Brad Gessner, WestWorld General Manager Dan Worth, City Engineer Craig Clifford, Finance Department Bryan Bundy, Finance Department Stella Fusaro, Audit Ramone Ramirez, Audit Amanda Willis, City Cable Gloria Storms Ruiz, WestWorld Administrative Secretary

1. Approve minutes from October 10, 2005 meeting

Motion was made by Committee Member Drake, seconded by Committee Member McCullagh, with no objections.

Agenda Items 2 & 3 were postponed until later in the meeting because Craig Clifford, from the City of Scottsdale Finance Department was delayed.

4. Region VII Multi-Year Contract – Brad Gessner

Mr. Gessner stated that Region VII Arabian Horse Show has been at WestWorld for the past six years. Two and a half years ago, WestWorld entered into a three-year agreement with them that will expire after their show in April of 2006.

WestWorld would like to enter into a five (5) year agreement with Region VII. Knowing a new agreement will have to go before the City Council prior to being in effect, we are attaching a draft of the new contract for the Subcommittee to look over. This agreement states the rates for the first three years will remain at current (2005) rates. In 2010 the rates will increase five percent, (5%,) and will remain at this rate through 2011.

Mr. Gessner stated that since this show is held during our 'shoulder' season, and is a big show for WestWorld (between 700-800 horses,) this makes it even more important to keep them. At this time, the Region VII board appears to be happy with the terms of the new agreement.

Council Member Ecton stated that if there was no more discussion, this should move forward to the City Council, the Subcommittee agreed.

2. Finance Department report on buyout of Western Capital's interest in Monterra – Craig Clifford

Mr. Clifford, referencing the attached Memorandum, stated the Financial Services staff "does not recommend purchase of the WestWorld master Food & Beverage agreement. The speculative increase in food and beverage revenues and the suggested changes to current business operations do not justify the substantial cash outlay of $2,000,000 and lengthy estimated payback of 11.7 years. Although the Bigelow study suggests a less conservative payback estimate of approximately 9 years based on higher revenue estimates, this still remains too long a timeframe to prudently recommend the outlay of City funds for this type of return."

Council Member McCullagh asked if there had been a sensitivity analysis done that would help the City foresee the probability that we could generate a larger percentage for the City. He also asked what our motive is to do this.

Mr. Gessner said that in comparison to other facilities around the county, the structure of this agreement is not normal. He stated the base payment of $175,200 paid annually by Monterra is just the beginning of the payback to the City. Bill Smith, who runs Monterra, is remodeling Monterra, adding square footage and this should translate into increased profits because they would have more room and not have to turn away events that need the increased space.

The Subcommittee asked Mr. Smith if he was going to move forward with his remodel whether the buyout was imminent. Mr. Smith stated in the affirmative that he planned to move forward no matter the outcome of this issue.

A lengthy discussion ensued and the consensus was since there was no urgency in buying out Western Capital, we should raise this issue in another year or two, after seeing Monterra's business trend.

3. Arizona Banquets & Events buyout of Big 4 – Brad Gessner, Bill Smith

Bill Smith, Arizona Banquets & Events, has purchased Big 4's interest in Monterra. However, this needs to be authorized by the City Council. Mr. Gessner stated that Kelly Ward, Senior Attorney with the City said this could be done administratively if the Subcommittee agrees to it.

Council Member McCullagh asked if our security gets diluted in any way by doing this? Mr. Gessner stated that no, Arizona Banquets takes on the responsibility of running Monterra in its entirety.

A discussion ensued; with the consensus the Subcommittee would authorize the buyout of Big 4's interest in Monterra by Arizona Banquets. Council Member Drake asked that in the future, the Subcommittee be supplied with a one-page report that would give detailed information on the history of the issue. Mr. Gessner said he would be happy to provide that.

5. Review upcoming events – Brad Gessner

Mr. Gessner stated that the Saguaro Classic Arabian Horse Show had just wrapped up and again, it was a great show. Golfest, a new show for WestWorld is next weekend along with the Merry Go Round Horse Show. U.S. Team Roping Championships rings in the New Year as they have for several years.

In January, we have the Arizona National Quarter Horse Show, the BLM Horse and Burro Adoption and the largest non-equestrian show at WestWorld, the Barrett Jackson Classic Car Auction. Mr. Jackson has added three days to his event this year, bringing it to a total of nine days. Sun Country Circuit Quarter Horse Show is another Signature Event that begins the 27th of January. Jan Bruner, Show Manager, is very happy with the additions at WestWorld and believes her show, that has more numbers already than last year, will be a great success.

In February, we have the 51st Annual Scottsdale Arabian Horse Show, February 17 – 26th. Taryl Pearson, AHAA Director, oversees a huge and very successful show and we are looking forward to having them. dmg World Media will be holding their Home Show on the 10 – 12th, and the North Scottsdale Polo Club continues to play Polo matches almost every weekend throughout the spring.

Brad Gessner said that WestWorld is booked October through April. If one event gives up their dates, we usually have two to three events ready to move-in to these dates; however, it is important to bring new events to WestWorld during the shoulder season and City Cable has helped us put together a DVD marketing WestWorld. Mr. Gessner played the DVD for the Subcommittee and introduced Amanda Willis, from the City, who put together the DVD for us. Ms. Willis did a fabulous job!

Mr. Gessner is hoping this DVD will bring new events to WestWorld in the shoulder season. The only way we could host new shows during our peak season is to displace some small equestrian events and Mr. Gessner is not willing to displace these shows. The entire Subcommittee agreed with Mr. Gessner that the smaller equestrian events are too important to lose and, even if we need to spend more money on arenas, we need to keep them.

Committee Member Drake stated it was important for WestWorld to stay on a mission that puts a greater emphasis on equestrian events, not consumer shows. Council Member Ecton stated that he believed WestWorld was staying on its mission by keeping WestWorld booked and having events that involve the community. He believed it is very doable to keep the events at WestWorld equitable to all.

Committee Member Drake stated, that she was not comfortable with a motorcycle event being held the same weekend as the Dressage Competition. She felt this could become an issue. She also asked about the footing issues; had they been resolved?

Mr. Gessner stated that he is meeting Jeff Rhodes, a footing specialist, this coming week. He anticipates the footing issue to be resolved before the next horse show. Kelly Charpentier, AHAA, stated that the Equidome footing needs some attention as it becomes too packed down as the more it is used. The Arena 3 footing is very good, but the Arena 6 footing is still too deep. Mr. Gessner stated that they would continue to work on the footing until it is right.

Jan Bruner, Sun Country, concurred with the Arabians about the footing. She offered to have another expert come in to evaluate the footing issues.

Council Member Ecton asked Roger Klingler if he had any comments. Mr. Klingler stated that this had been a very constructive meeting and assured the Subcommittee that WestWorld would continue to address all drainage and footing issues until they were in order.

Public Comments –

Bill Flood, President, Arabian Horse Association said he appreciates the City purchasing the State Land recently that can be utilized by the bigger shows.

ADJOURN PUBLIC MEETING

With no further business to discuss, the Public Meeting adjourned at 8:58 a.m.

SUBMITTED BY:

Gloria Storms Ruiz

Gloria Storms Ruiz
Recording Secretary

REVIEWED BY:

Wayne Ecton

Councilman Wayne Ecton
Chair

Officially approved by the WestWorld Subcommittee on 2/16/06

Attachment

INTEROFFICE MEMORANDUM

TO:	CRAIG CLIFFORD
FROM:	BRYAN BUNDY
SUBJECT:	WESTWORLD MASTER FOOD AND BEVERAGE AGREEMENT
DATE:	NOVEMBER 14, 2005

REQUEST

CONSIDER acquisition of ownership rights to the WestWorld master food and beverage agreement from National Western Capital Corporation for two million dollars ($2,000,000).

Related Policies, References

- Restaurant and Catering Concession Agreement by and between the City of Scottsdale and Pegasus Restaurant and Catering, Inc., made and entered into December 30, 1996 (City Contract No. 960214).
- Subconcession Agreement between Pegasus Restaurant and Catering, Inc. and Big "4" Catering, L.L.C., dated December 30, 1996.
- Asset Purchase Agreement involving parties Pegasus Restaurant and Catering, Inc. and National Western Capital Corporation, effective January 22, 2002.
- Cost Sharing and Recreational Land Use Agreement For Use of the WestWorld Property Between the United States Bureau of Reclamation and the City of Scottsdale, dated July 29, 1982.
- WestWorld Foodservice Operational Report, prepared by The Bigelow Companies, Inc, dated November 29, 2004.

BACKGROUND

<u>Historic Timeline and Relationship of Parties</u>

The City of Scottsdale entered into a land use agreement with the United States Bureau of Reclamation (BOR) on July 29, 1982 for a 75-year lease (50-year initial term with a 25-year extension option) to create recreational and entertainment activity for the Region. Until 1997, the facility now known as WestWorld was privately managed and the operator had exclusive food and beverage rights for the entire complex.

In 1997, the City purchased rights to WestWorld from the private operator (Horseworld Joint Venture). The purchase included a 10,500 square foot restaurant named Monterra, which can accommodate patrons of up to 500 inside the facility and 500 outside on the patio for food and beverage functions. At the time of the WestWorld purchase, the City also had the right to buyout the Monterra master food and beverage agreement, but elected not to pay the additional $2 million buyout fee.

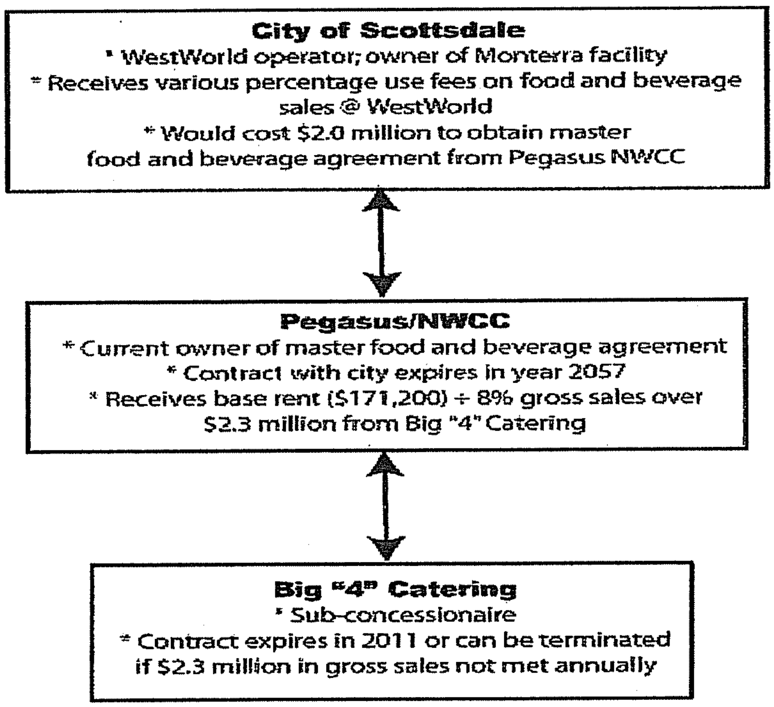
In addition to the WestWorld purchase, the City entered into an agreement with Pegasus Restaurant and Catering, Inc. that granted concession rights to operate a restaurant and/or catering operation at the WestWorld facility. The term of this agreement was the same as the senior license between the City and the BOR (through year 2032, plus a 25-year extension allowed through year 2057).

Simultaneous to the City-Pegasus agreement, Pegasus entered into a sub-concession agreement with Big "4" Catering, L.L.C. to provide restaurant, catering, and concession services at the Monterra facility. The term of this agreement expires on December 31, 2011.

In 2002, the food and beverage master license for Monterra was transferred from Pegasus to National Western Capital Corporation (NWCC) and remains as such to this day.

The illustration below recaps the relationship between parties, as well as key financial terms of agreements.

Current Food & Beverage Relationship & Terms at WestWorld



Financial Terms of Agreements

Based on the parties relationships described above, the following is a synopsis of key financial terms contained within the food and beverage agreements:

- Per section 8.2 of the 1996 master food and beverage agreement between the City and Pegasus (now NWCC), the cost of acquiring ownership rights to the master food and beverage agreement is $2 million.
- Per the 1996 master food and beverage agreement, the City received 2% of gross sales for any concession or catering sales anywhere at WestWorld.
- In 2003, an amendment was made to the 1996 master food and beverage agreement, increasing commissions on concession and catering sales for events held at WestWorld but outside of Monterra. The applicable percentage use fees for activity outside of Monterra are now: 10% for catered, 20% for concessions, and 30% on cash liquor (the use fee percentage for sales inside the Monterra facility remains at 2%).

- Per the 1996 Subconcession Agreement between Pegasus (now NWCC) and Big "4" Catering, the sub-concessionaire (Big "4") is required to pay the "master" concessionaire (currently NWCC) an annual base rent of $171,200, plus 8% of gross sales over $2.3 million. The agreement further states that the sub-concession relationship can be terminated prior to its December 31, 2011 expiration should the sub-concessionaire not meet its contractually required milestone of $2.3 million in annual gross sales and revenues (which, as of FY 2004/05, the annual $2.3 million milestone has never been reached).

The following table reflects Monterra's gross sales for FY2002/03 – FY2004/05 and corresponding payments to the City per master food and beverage contract at WestWorld.

Monterra Food and Beverage Sales Activity

Fiscal Year	Gross Sales	Payments to City
2002/03	$1,151,120	$58,086
2003/04	$1,500,003	$71,173
2004/05	$1,301,434	$67,442

Analysis & Assessment

Based on the financial terms of the food and beverage agreements discussed above, questions have arisen as to whether the current food and beverage business model at WestWorld is in the City's best interest, and whether there are opportunities for revenue growth and improving foodservices operations at WestWorld.

Below is staff's analysis and assessment of the WestWorld food and beverage program, focusing on three key areas: 1) Market Standards; 2) Operations; and 3) Revenues. Also discussed are the potential benefits from the City purchasing ownership rights to the master food and beverage agreement.

Note: This section references the 2004 WestWorld Foodservice Operational Report by The Bigelow Companies, Inc., who were commissioned by the City to review the current food and beverage operations at WestWorld.

Market Standards
Assessments: WestWorld's current food and beverage percentage use fees are below market standards. The 52 years remaining on the master food and beverage agreement is well beyond industry standards.

Use Fees – Per the 1996 master food and beverage agreement, the City receives 2 percent of Monterra's gross sales. Some of the percentage use fees for sales activity outside of the Monterra facility were increased in FY 2003/04 through an amendment to the original agreement. However, the Bigelow Companies reported in their findings that the food and beverage program at WestWorld remains below market standards. According to Bigelow, typical commissions for catering sales range between 15-25% of gross sales, and food and beverage concession sales range between 30-40% of gross sales. Under the current amendment, the City receives 10% for catering sales and 20% for concession sales at WestWorld that take place outside of the Monterra facility. The use fee percentage for all food and beverage sales inside the Monterra facility remains at 2% and, per terms of agreement, cannot be increased unless the City obtains ownership rights of the master food and beverage license. (As a comparison, the food and beverage agreement for the Scottsdale Stadium requires the food and beverage operator to pay 44.4% of gross sales for food and non-alcoholic concession sales, and 35% of gross sales from alcoholic beverage sales.)

If the City purchases the ownership rights to the master food and beverage agreement, WestWorld staff may be able to implement higher percentage use fees that are more competitive with current market standards.

<u>Contract Term</u> – The current master food and beverage agreement does not expire until the year 2057, meaning there is approximately 52 years left on the current agreement. According to the Bigelow report, the length of this agreement is unusual in the food and beverage industry. Bigelow recommends "the city attempt to negotiate a reasonable contract term more in line with the industry standard of five years".

If the City purchases the ownership rights to the master food and beverage agreement, the 52 years remaining on the current agreement would terminate and the City would absorb the sub-concession agreement currently owned by Big "4". The Big "4" agreement expires in approximately 5 years (2011).

<u>Operations</u>
Assessment: WestWorld's current food and beverage structure could be streamlined to provide tighter operational controls and greater operating efficiencies.

As discussed in the 'Background' section of this report, WestWorld's current food and beverage business model involves three separate parties:

1. The City of Scottsdale – Operator of WestWorld, owner of Monterra building, equipment, and smallwares;
2. NWCC – Current owner of master food and beverage license and master concessionaire;
3. Big "4" Catering – Sub-concessionaire per contract agreement with NWCC.

Under the current agreement, the sub-concessionaire (Big "4") makes direct annual payments to the owner of the food and beverage master license (NWCC). According to the Bigelow study, "the majority of the payments by Big 4 Catering is being paid to a 'middle man'…who provides little or no service/benefit to the Monterra operation. The City does not receive any portion of the payments made to National Western Capital Corporation".

If the City purchases the ownership rights to the master food and beverage agreement, this would provide WestWorld with the opportunity to package all food and beverage rights together under one comprehensive contract, resulting in direct control over all food and beverage subcontracts.

<u>Revenues</u>
Assessment: Current City revenue levels for food and beverage sales at WestWorld are not maximized and there is additional opportunity for additional revenue growth.

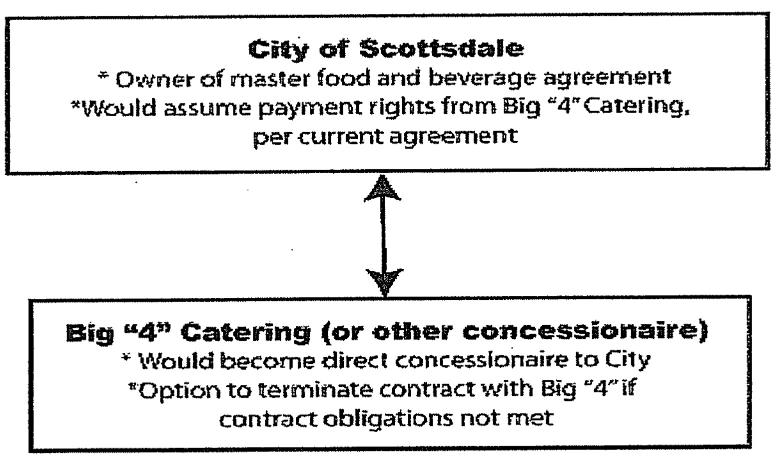
The City currently receives a percentage of gross sales related to food and beverage activity at WestWorld, based on the percentage use fees specified in the food and beverage agreements. Food and beverage revenue receipts by the City had been averaging approximately $25,000 per year until fiscal year 2003/04. Until FY 2003/04, the master food and beverage agreement stipulated that the City would receive 2% of gross sales from catering and concession activity at WestWorld. As discussed earlier, some of WestWorld's food and beverage percentage use fees for sales activity <u>outside</u> of the Monterra facility were increased in FY 2003/04 through an amendment to the master agreement to bring the fees more in line with market standards. Based on these increases, revenues paid to the City for food and beverage sales activity increased to approximately $72,000 in FY 2003/04. However, per terms of the current agreement, the 2% use percentage fees for sales activity <u>inside</u> the Monterra facility cannot be increased unless the City obtains ownership rights of master food and beverage license.

If the City purchases the ownership rights to the master food and beverage agreement from NWCC, the City would then assume the sub-concession agreement with Big 4 Catering and the City would begin receiving annual base rent payments from Big 4 Catering, as stipulated in the agreement, in the amount of $171,200, plus 8% of all gross sales exceeding $2.3 million (although historically the sub-concessionaire has never exceeded the $2.3 million annual milestone).

Based solely on the annual base rent payments from Big "4" ($171,200), the City would recoup the $2.0 million cost of purchasing the master food and beverage agreement in approximately 11.7 years. This calculation, however, does not take into account potential revenue gains at WestWorld that might be generated by higher food and beverage percentage use fees for Monterra, a consolidated food and beverage contract, and more event days and shows at WestWorld as the facility expands and adds new venues. The Bigelow study states they "believe WestWorld could immediately increase their bottom line by $230,000 annually while offering one comprehensive food and beverage contract for the complex. Barring any increase sales, which will definitely occur once the new venues are developed, the buyout would be paid back in less than 9 years".

The illustration below reflects the revised food and beverage model should the City buyout the master food and beverage contract at WestWorld.

Proposed Buyout



Resource Impacts

The cost to the City of acquiring ownership rights to the master food and beverage agreement is $2 million, per section 8.2 of agreement. This would require a one-time lump sum payment by the City to NWCC, unless the City and NWCC come to an agreement on payment terms.

Funding options for purchase of the master agreement include the use of FY 2005/06 budget contingency or CIP funds, fund purchase through the FY 2006/07 budget proposal, or internal financing to be repaid from annual base rent payments of $171,200 from Big 4 Catering.

Upon purchasing the master food and beverage agreement from NWCC, the City would then assume the sub-concession agreement with Big 4 Catering and the City would begin receiving annual base rent payments from Big 4 Catering, as stipulated in the agreement, in the amount of $171,200, plus 8% of all gross sales exceeding $2.3 million (which has yet to be reached).

OPTIONS

Option A: Acquire ownership rights to the WestWorld master food and beverage agreement from National Western Capital Corporation for two million dollars ($2,000,000).

Advantages:

- Address market competitiveness of food and beverage percentage use fees with potential revenue growth upside.
- Address length of current contract compared to industry standards; package all food and beverage rights together under one comprehensive contract.

Disadvantages:

- Large present value cash outlay of $2,000,000.
- Long payback term of initial cash outlay, conservatively estimated at 11.7 years.
- Speculative upside return for revenue growth and operational improvements.

Option B: (Staff Recommended Proposal)
Do not acquire ownership rights to the WestWorld master food and beverage agreement from National Western Capital Corporation for two million dollars ($2,000,000) and continue to operate under the current food and beverage model at WestWorld and receive annual revenues per existing terms.

Advantages:

- Fiscally conservative approach.
- Avoids lengthy 11.7 year payback on a $2,000,000 outlay of City cash.

Disadvantages:

- Limited ability to adjust future food and beverage use fees to market standards, as well as to restructure current business model.
- Potential revenue growth opportunities limited by current master agreement.

Based on above criteria and assessment, Financial Services staff does not recommend purchase of the WestWorld master food and beverage agreement. The speculative increase in food and beverage revenues and the suggested changes to current business operations do not justify the substantial cash outlay of $2,000,000 and lengthy estimated payback of 11.7 years. Although the Bigelow study suggests a less conservative payback estimate of approximately 9 years based on higher revenue estimates, this still remains too long a timeframe to prudently recommend the outlay of City funds for this type of return.

RESPONSIBLE DEPT(S)

WestWorld, Financial Services